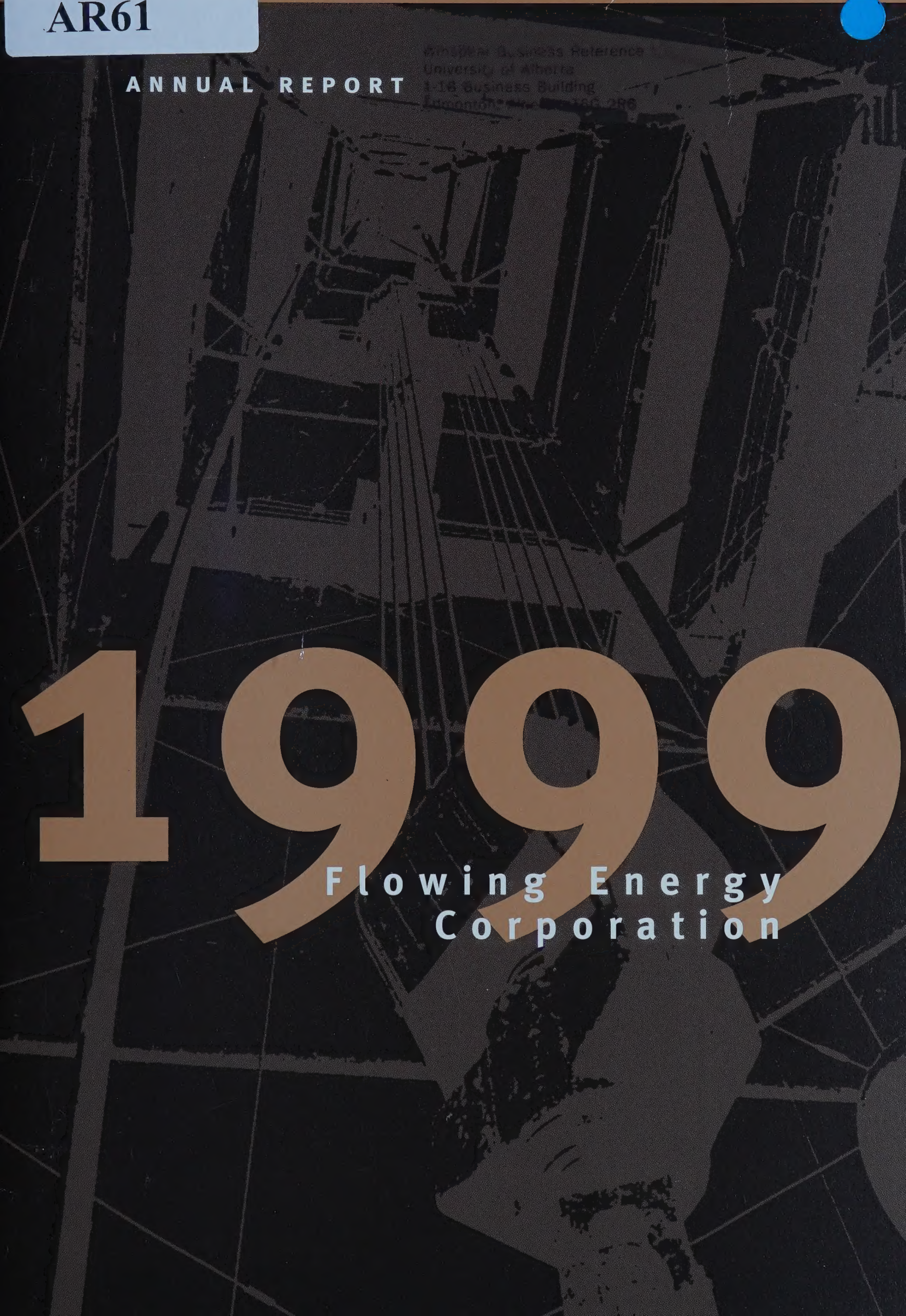
ANNUAL REPORT

1999

Flowing Energy Corporation



Corporate Profile

Flowing Energy Corporation is a junior resource company driven to deliver value to its shareholders. Its principal business is the exploration, development and production of natural gas and oil in Alberta. Flowing targets low risk opportunities offering significant upside potential. Flowing Energy's shares trade on the Canadian Venture Exchange under the symbol FLO.

1999

Flowing Energy Corporation

Report to Shareholders

During 1999 Flowing Energy took an active role pursuing oil and gas opportunities in Western Canada. We hired Tony Pantalone, a professional geologist, as Executive Vice President who is charged with implementing this direction. Mr. Pantalone is highly regarded in the industry based on his successful oil and gas finding track record. Mr. Pantalone currently owns slightly less than 10% of the Company. Mr. Pantalone has developed six different play concepts for Flowing Energy. These concepts are based on clear geological indications of significant hydrocarbon accumulations close to underutilized infrastructure with year-round access.

Based on an extensive review, Flowing Energy has established an inventory of prospects for these play concepts. By year-end, Flowing Energy had acquired its first two leases in the Ponoka and Wildmere areas of Alberta. Based on our business plan we expect to acquire further leases and have already acquired four new leases in early 2000.

Ponoka

During February 2000, Flowing Energy completed a 100% working interest sweet gas well in the Ponoka area of central Alberta. At the end of 5 days flow, the well was flaring about 1.78 mmcf per day with 49 bbls NGL per day. The calculated sandface AOF is 2.00 mmcf per day. Based on logs and mapping, it is believed this well will have significant reserves. Flowing Energy has acquired an additional 2,320 acres in the surrounding area bringing its total land position to 2,960 acres, all 100% owned. Three locations with the same potential as the first well have been identified on the new land, in addition to oil and gas prospects in shallower horizons.

In March 2000, Flowing Energy reached an agreement with AltaGas to provide, at its cost, a pipeline tie in to our Ponoka well. AltaGas projects to complete this work in June at which time we will commence commercial gas deliveries.

Wildmere

In the Wildmere area of eastern Alberta, Flowing Energy participated in a gas well drilled in December 1999 for a 12.5% BPO/6.25% APO interest. The well encountered 13 meters of net sweet gas pay in 5 different zones. A delay from the on-production date of April 1 was caused by spring break up. The well was being completed during early May. Expected net initial BPO production is 175 mcf per day by the end of May.

Prospects

Flowing Energy has also acquired 1,280 acres of land in the Gilby area of central Alberta, based on internally generated drill ready oil and gas plays in Mississippian and Devonian formations. Flowing Energy holds this land 100%; however, the company is currently in discussions to farm out the first drilling location.

Acreage has also been obtained in the Pouce Coupe area of northwest Alberta. Based on a deep, large (4200 acres) undrilled geologically mapped four way structural closure in the Peace River Arch geologic province, Flowing Energy acquired a 320 acre 100% land block. Target formations include the Mississippian Taylor Flat, Kiskatinaw, and Elkton formations above the depth of 2500 metres and the Devonian Wabamun formation at a depth of approximately 3300 metres. Potential field size is in the order of 400 Bcf. The land is accessible year round and lies on a pipeline going to a highly underutilized gas plant.

In the Bigoray area of west central Alberta, Flowing Energy bought a 100% interest in 160 acres land parcel for a Jurassic and Mississippian test. The land is also prospective for various Mannville sands and Devonian Nisku pinnacle reefs. Lastly, Flowing Energy acquired a 100% interest in a 320-acre lease based on a Devonian prospect lead in the Penhold area of central Alberta.

Sousa-Fire

Unresolved issues relating to title and reserves of the Sousa-Fire acquisition resulted in Flowing Energy filing a statement of claim against the vendors, the operator and the independent engineers. Our claim seeks compensation for the reported value in the independent engineers' report for our property that was, in fact, a dry hole. In addition, we are seeking compensation for drilling costs billed to us by the operator for two wells that, according to the independent engineers' report, were drilled, tested but not tied in prior to the data of this report.

Gold Project

The company continues to hold a 10% net interest in the mineral exploration rights covering a 2,500 square kilometer area in northwest Georgia, a former republic of the Soviet Union. Past work shows this license remains prospective. However, in current market conditions we do not expect to carry out any material work during 2000.

Outlook

Our plans are to participate in two more wells in 2000. We plan to develop a prospect inventory allowing us to participate in four to ten wells in 2001. We believe the Ponoka well is indicative of the results we can typically achieve for these prospects.

Flowing Energy Areas of Interest in Alberta

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Flowing Energy Corporation as at December 31, 1999 and 1998 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and 1998 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles.

Kenway Mack Slusarchuk Stewart

Chartered Accountants

Calgary, Alberta
April 24, 2000

Consolidated Balance Sheets

December 31		**1999**		1998
Assets				
Current assets:				
Cash	**$**	**97,647**	$	53,693
Accounts receivable		**63,701**		17,404
		161,348		71,097
Promissory notes receivable (Note 3)		**87,500**		87,500
Investment in Sarnia Minerals Limited (Note 4)		**10,000**		232,978
Petroleum and natural gas properties:				
Cost		**331,971**		297,737
Less – Accumulated depletion		**130,318**		43,292
		201,653		254,445
	$	**460,501**	$	646,020
Liabilities				
Current liabilities:				
Accounts payable	**$**	**49,070**	$	61,423
Deposits received on convertible debentures (Note 9)		**125,000**		–
		174,070		61,423
Future site restoration and abandonment costs		**3,000**		2,400
		177,070		63,823
Shareholders' Equity				
Share capital (Note 5)		**680,000**		680,000
Deficit		**(396,569)**		(97,803)
		283,431		582,197
	$	**460,501**	$	646,020

Approved by the Board:

Mike Bunnie

Director

Tony Pantalone

Director

Consolidated Statements of Loss and Deficit

For the Year Ended December 31	**1999**	1998
Revenue:		
Oil and gas revenue, net of royalties	$ **124,867**	$ 52,353
Interest income	–	10,792
	124,867	63,145
Expenses:		
Depletion	**87,626**	43,892
Production	**72,107**	20,683
General and administrative	**40,922**	76,195
	200,655	140,770
Loss from operations	**(75,788)**	(77,625)
Write-down of investment in Sarnia Minerals Limited	**(222,978)**	–
Loss	**(298,766)**	(77,625)
Deficit, beginning of year	**(97,803)**	(20,178)
Deficit, end of year	$ **(396,569)**	$ (97,803)

Consolidated Statements of Cash Flows

For the Year Ended December 31	**1999**	1998
Operating activities:		
Loss	**$ (298,766)**	$ (77,625)
Items not involving cash		
Depletion	**87,626**	43,892
Write-down of investment in Sarnia Minerals Limited	**222,978**	—
	11,838	(33,733)
Changes in non-cash working capital balances		
Accounts receivable	**(46,297)**	(15,458)
Accounts payable	**(12,353)**	59,959
Deposits received on convertible debentures	**125,000**	–
	66,350	44,501
	78,188	10,768
Financing activities:		
Proceeds on issue of share capital	**–**	250,000
Issue of promissory notes for purchase of share capital	**–**	(87,500)
	–	162,500
Investing activities:		
Expenditures on petroleum and natural gas properties	**(34,234)**	(295,937)
Investment in Sarnia Minerals Limited	**–**	(232,978)
	(34,234)	(528,915)
Increase (decrease) in cash	**43,954**	(355,647)
Cash, beginning of year	**53,693**	409,340
Cash, end of year	**$ 97,647**	$ 53,693

Notes to Consolidated Financial Statements

1. Principles of Consolidation

These consolidated financial statements include the accounts of Flowing Energy Corporation (the "Corporation") and its wholly owned subsidiary Flowing Energy Inc. from the date of acquisition of July 6, 1998.

2. Significant Accounting Policies

Petroleum and Natural Gas Properties

The Corporation uses the full cost method of accounting for petroleum and natural gas operations whereby all costs of exploring and developing petroleum and natural gas properties and related reserves are capitalized into a single Canadian cost centre. Such costs include acquisition costs, costs of drilling both productive and non-productive wells, geological and geophysical expenses and well equipment.

Gains or losses on the disposition of petroleum and natural gas properties are not ordinarily recognized except under circumstances which result in a major revision of depletion rates.

Capitalized costs, together with estimated future capital costs associated with proven reserves, are depleted using unit-of-production method based on estimated proven reserves of petroleum and natural gas before royalties as determined by an independent engineer. For purposes of the depletion and depreciation calculation, natural gas reserves and production are converted to equivalent volumes of crude petroleum based on their approximate relative energy content.

The Corporation applies a "ceiling test" to capitalized costs to ensure that such costs do not exceed estimated future net revenues from production of proven reserves, using prices and costs in effect at the Corporation's year end. Future net revenues are calculated after deducting general and administrative, financing, income taxes and future site restoration and abandonment costs.

All of the Corporation's exploration and production activities are conducted jointly with others and accordingly, the accounts reflect only the Corporation's proportionate interest in such activities.

Future Site Restoration and Abandonment Costs

Estimated future site restoration and abandonment costs are provided for over the life of the proven reserves on a unit-of-production basis. Costs are estimated each period by management based on current regulations, costs, technology and industry standards. The annual charge is included in the provision for depletion and depreciation and actual site restoration and abandonment expenditures are charged to the accumulated provision account as incurred.

Deferred Income Taxes

Income taxes are accounted for by the deferral method of income tax allocation.

Use of Estimates

The amounts recorded for depletion of petroleum and natural gas properties and the provision for future site restoration and abandonment costs are based on estimates. The ceiling test calculation is based on such factors as estimates of proven reserves, production rates, petroleum and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

3. Promissory Notes Receivable

The promissory notes receivable were issued on the issue of share capital. The notes have no fixed terms of repayment, bear interest at 4%, mature on June 30, 2001 and are secured by shares of the Company.

4. Investment in Sarnia Minerals Limited

The Company owns approximately 20% of the outstanding shares of Sarnia Minerals Limited (Sarnia), a company in the mineral exploration industry in the Republic of Georgia. In 1999, the investment was written down by $222,978.

5. Share Capital

Authorized –

Unlimited number of common voting shares.

Unlimited number of preferred shares issuable in one or more series.

Issued	**1999**		1998	
	Number of Common Shares	Amount	Number of Common Shares	Amount
Balance, beginning of year	5,800,000	$ 680,000	3,300,000	$430,000
Issued on purchase of Flowing Energy Inc.	–	–	1,500,000	–
Issued in private placement for cash	–	–	650,000	162,500
Issued in private placement for promissory notes receivable	–	–	350,000	87,500
Balance, end of year	5,800,000	$ 680,000	5,800,000	$ 680,000

Shares Reserved for Issuance

The Corporation has established a stock option plan for its directors and officers which will provide options to purchase 325,000 common shares at a price of $0.20 per share exercisable until April 30, 2002.

In addition, pursuant to an Agency agreement, a non-transferable option to purchase 100,000 common shares of the Corporation at $.20 per share was granted to the Corporation's Agent upon closing of its public offering.

6. Loss Per Share

Loss per share has been calculated using the weighted average number of shares outstanding during the year. The loss per share is $0.052 (1998 – $0.018)

7. Income Taxes

The Company has non-capital losses of $167,486 which may be utilized to reduce taxable income in future years. These losses expire as follows:

2004	$ 20,178
2005	89,578
2006	57,730
	$ 167,486

The potential income tax benefits of these losses has not been recognized in these financial statements.

8. Fair Value Disclosure

The fair value of all the Corporation's financial assets and liabilities approximates their carrying value.

9. Subsequent Events

Subsequent to year end, the Company was granted regulatory approval to issue $300,000 of convertible debentures. The debentures bear interest at 5%, are convertible into 1,200,000 common shares of the company at the option of holders and mature on February 1, 2003.

As well, the Company granted 300,000 stock options to officers and directors exercisable at $0.25 per share and expire on February 1, 2005.

Corporate Information

Directors

Michael R. Binnion
President and Chief Financial Officer

Tony Pantalone
Executive Vice President

J. F. Russell Hammond

Head Office

1580, 727 7th Avenue SW
Calgary, Alberta T2P 0Z5
Tel: (403) 777-1185
Fax: (403) 777-1578

Auditors

Kenway Mack Slusarchuk Stewart
220, 333 Eleventh Avenue SW
Calgary, Alberta T2R 1L9

Bankers

Royal Bank of Canada
339 Eighth Avenue SW
Calgary, Alberta T2P 1C4

Transfer Agent

Montreal Trust Company of Canada
600, 539 Eighth Avenue SW
Calgary, Alberta T2P 3S8

Stock Exchange Listing

Canadian Venture Exchange
Symbol : FLO

Flowing Energy Corporation

1580, 727 7th Avenue SW
Calgary, Alberta T2P 0Z5
Tel: (403) 777-1185
Fax: (403) 777-1578